UNCTAD Trade and Development Board, 71st Executive Session

Leveraging capital markets for sustainable development

Statement by

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Room XIX

Check against delivery

Excellencies,
Distinguished delegates,
Ladies and Gentlemen,

Last week, at my opening statement to this Trade and Development Board, I read from the Bridgetown Covenant, I read them again: "this pandemic has underscored the uneven resilience and uneven capacities of countries to deal with crises".

It is one of the sources of this unevenness, dear delegates, that will be tackled in this session. The large and growing inequality in access to adequate, predictable, and sustainable investments from capital markets around the world.

Here, we've seen again the trend, so common throughout this crisis, that the higher the inequality, the greater the impact, and the stronger and weaker the recovery. In general, those countries that already had very little access to financial markets to begin with when the pandemic hit, were the ones to suffer the greatest capital flight in the first half of 2020. And currently, in the middle of this large but lopsided global recovery, these countries are now the least able to raise resources to invest in their own future, in their own sustainable development.

This phenomenon has affected most developing countries, but especially the most vulnerable.

Small Island Developing States, due to the twin crisis of climate change and the pandemic, have been forced to redirect the little resources they have for long-term investment into short-term damage mitigation.

Landlocked developing states, facing highly disrupted supply chains, are being forced to redirect resources into securing and stockpiling key imports.

Furthermore, our latest data shows that, while a recovery of international investment in SDG sectors is underway, SDG investment in Least Developed Countries still declined by 17% in 2021, with productive investment projects almost completely drying up.

Finally, in the context of rising interest rates, debt-service costs are increasing across-the-board, a situation towards which some middle-income-countries are especially vulnerable, given the lack of adequate mechanisms to restructure their debt. Here, the same thing happens. Money for the long-term is being spent on the short-term.

And yet, the challenge the world faces is not only about reigniting the economy. It is about making the recovery more sustainable and more resilient to future shocks. For this, we need to mobilize more capital for investment in the SDGs, if we are to have any hope of achieving the 2030 Agenda.

Dear Delegates:

Capital markets can be a source of this much needed investment. Over the years, UNCTAD has explored how capital markets can contribute to closing the now over 4 trillion-dollar SDG financing gap.

Recently, we have been expanding our focus to the analysis of the global financial ecosystem, or the *upstream* segment of the investment chain. And here we've found that, despite its qualitative differences from foreign direct investment (FDI), financial investment offers a potential source of capital for sustainable development. Crucially, the ecosystem surrounding global capital markets is increasingly aligning itself with sustainable development outcomes, including the SDGs.

The past 25 years have seen the emergence of sustainability performance as something to measure and disclose. Indeed, sustainability issues represent a material risk to investors, and a potential systemic risk to the global financial market, and ultimately to society at large, as demonstrated by this pandemic. More recently, sustainability performance has expanded from disclosure at the company-level to disclosure at the product and institutional level. The past decade has also witnessed the accelerating growth of a sustainable investment market focused on equities and bonds.

The growth of this market has been outstanding. Barely 17 years ago, before a United Nations report set the foundation for its legal framework, sustainable investment was just a concept. Now, according to some studies, it is a 35 trillion-dollar market, more than twice the GDP of the European Union, and it is expected to reach 53 trillion dollars by 2025. This is an impressive amount of capital. It is true that much of it is mislabled, a practice that UNCTAD is committed to fight through the Global Sustainable Finance Observatory. But no one can fail to appreciate the huge potential of this growing market.

Now, much of this growth has been voluntary and market-driven, demanded by investors, provided by enlightened early-adopters, and supported by frameworks and principles. However, the period of voluntary self-regulation is now transitioning to a period of mandatory market regulation, which is likely to influence the future direction of the whole global financial ecosystem. Already, the sustainable investment market appears to have reached a tipping point in terms of both the size of the market and the complexity of its regulatory oversight.
The inevitable evolution of this trend is the full integration of sustainability performance and standardized ratings throughout the whole global financial ecosystem. This will mean the end of sustainability as a niche investment strategy, and the beginning of its use as a standardized performance metric in par with financial performance.

This will be especially important for developing countries, which have been largely bypassed by the growth in sustainable investment. Of the 35 trillion dollars I mentioned before, only 5 trillion are invested outside of Europe and the US. That is less than 15%, a number that is way too low in relation to both the SDG investment gap, as well as the return potential of emerging markets everywhere.

As I pointed out in my opening statement to this TDB, to foster a more sustainable and resilient economy, we need to move from a trade-off narrative to a win-win narrative for sustainable development. This is also possible in this area, where positive climate and environmental outcomes can be aligned with stable financial performance and growth. But sustainability and resilience also demand inclusivity, the third pillar of a sustainable development paradigm. Towards this end, developing countries and those that are the most vulnerable and the most affected by climate change, must also gain from recent trends in sustainable finance.

UNCTAD has been working to promote the uptake of sustainability by capital markets and other financial market actors, particularly in developing countries. To take this work forward, UNCTAD launched the *Global Sustainable Finance Observatory* to facilitate the transition of sustainable investment from market niche to market norm, by bringing clearer rules in financial markets, more transparency and credibility to the market, and by fighting SDG-washing and Green-washing practices so to channel this money to where it is most needed and most fertile.

Dear friends,

We have a fantastic multi-stakeholder panel ahead, where many of these issues will be highlighted and elaborated. We hope that our work on investment for development can help ensure that capital markets are fully aligned with the SDGs, so that we start closing gaps instead of opening them, so that we quickly regain lost ground, and so that we get back on track to fulfil the 2030 Agenda on time.

Thank you very much.